Sales and Use Tax - (Warranties)

What is a mandatory warranty and what is the taxability?

A *mandatory* warranty is a warranty that is not separately stated from the tangible personal property (item(s)) purchased. Mandatory warranties are a part of the sales price and subject to applicable state, special district and local sales or use taxes. This applies whether or not the purchase is made within Colorado or out-of-state.

For example: If someone purchases a new car from a dealership the warranty is automatically a part of the purchase price rather than being purchased separately. Therefore, the purchaser of the new car is not given the option of declining the warranty for any reason such as reducing the price of the vehicle.

If someone purchases a used vehicle as a private party sale, the buyer would **not** have to pay tax on the warranty if it is still in effect since the tax on the warranty has already been paid, but would have to pay sales tax on the vehicle when it is registered in the county the buyer resides.

If the warranty is in effect but the repair part is not included in the warranty then sales tax on the part would have to be paid by the purchaser.

Items that are "covered" under the mandatory warranty are a part of that contract, therefore, state sales tax would not be due on parts used to repair the item under the warranty agreement. This would no longer apply when the warranty has expired unless the individual decides to purchase an extended warranty. However, the business that repairs the merchandise under warranty may be subject to Colorado's Consumer Use tax of 2.9 percent for parts used in the repair work that are under warranty.